

SUPPLEMENTARY INFORMATION

FAYETTE COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

For the Year ended June 30, 2005

	Permanent Funds					Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	Building Fund	Anthony Dey Trust	Lexington Industrial Trust	Schmidt Trust	
Assets						
Cash and cash equivalents	\$ 6,505	\$ 2,294,207	\$ 19,012	\$ 6,081	\$ 401,989	\$ 2,727,794
Accounts receivable						
Taxes - current	-	63,830	-	-	-	63,830
Total assets	<u>\$ 6,505</u>	<u>\$ 2,358,037</u>	<u>\$ 19,012</u>	<u>\$ 6,081</u>	<u>\$ 401,989</u>	<u>\$ 2,791,624</u>
Fund Balances						
Reserved for:						
Unreserved, reported in:						
Capital projects funds	\$ 6,505	\$ 2,358,037	\$ -	\$ -	\$ -	\$ 2,364,542
Permanent funds	-	-	19,012	6,081	401,989	427,082
Total fund balances	<u>6,505</u>	<u>2,358,037</u>	<u>19,012</u>	<u>6,081</u>	<u>401,989</u>	<u>2,791,624</u>
Total liabilities and fund balances	<u>\$ 6,505</u>	<u>\$ 2,358,037</u>	<u>\$ 19,012</u>	<u>\$ 6,081</u>	<u>\$ 401,989</u>	<u>\$ 2,791,624</u>

See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the Year ended June 30, 2005

	Permanent Funds					Total Nonmajor Governmental Funds
	SEEK Capital Outlay Fund	Building Fund	Anthony Dey Trust	Lexington Industrial Trust	Schmidt Trust	
Revenues						
From local sources						
Property taxes	\$ -	\$ 9,943,839	\$ -	\$ -	\$ -	\$ 9,943,839
Motor vehicle taxes	-	833,050	-	-	-	833,050
Earnings and investments	11,876	114,999	234	404	8,561	136,074
Other local revenues	-	-	7,659	6,014	19,838	33,511
Intergovernmental - state						
SEEK	3,009,730	-	-	-	-	3,009,730
Total revenues	<u>3,021,606</u>	<u>10,891,888</u>	<u>7,893</u>	<u>6,418</u>	<u>28,399</u>	<u>13,956,204</u>
Expenditures						
Support Services:						
Business	551,833	-	-	-	-	551,833
Community service activities	-	-	4,787	6,167	5,881	16,835
Total expenditures	<u>551,833</u>	<u>-</u>	<u>4,787</u>	<u>6,167</u>	<u>5,881</u>	<u>568,668</u>
Excess of revenues over expenditures	2,469,773	10,891,888	3,106	251	22,518	13,387,536
Other financing sources (uses)						
Proceeds from refunding debt	-	-	-	-	-	-
Payment to refunded debt escrow agent	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Operating transfers out	(2,706,204)	(13,089,244)	-	-	-	(15,795,448)
Total other financing sources (uses)	<u>(2,706,204)</u>	<u>(13,089,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,795,448)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(236,431)	(2,197,356)	3,106	251	22,518	(2,407,912)
Fund balance, July 1, 2004	<u>242,936</u>	<u>4,555,393</u>	<u>15,906</u>	<u>5,830</u>	<u>379,471</u>	<u>5,199,536</u>
Fund balance, June 30, 2005	<u>\$ 6,505</u>	<u>\$ 2,358,037</u>	<u>\$ 19,012</u>	<u>\$ 6,081</u>	<u>\$ 401,989</u>	<u>\$ 2,791,624</u>

See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

Year ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources				
Property taxes	\$ 89,613,467	\$ 89,613,467	\$ 94,277,412	\$ 4,663,945
Motor vehicle taxes	8,940,028	8,940,028	8,103,338	(836,690)
Utility taxes	17,264,481	17,264,481	17,297,019	32,538
Occupational and license tax	24,047,743	24,047,743	26,242,949	2,195,206
Tuition and fees	135,954	135,954	109,193	(26,761)
Earnings and investments	597,203	597,203	1,128,798	531,595
Other local revenues	1,641,824	1,518,728	1,508,314	(10,414)
Intergovernmental - state				
SEEK	59,180,423	59,303,520	59,772,727	469,207
On-behalf revenues	-	-	35,119,792	35,119,792
Intergovernmental - direct	-	-	723,947	723,947
Total revenue	201,421,123	201,421,124	244,283,489	42,862,365
Expenditures				
Instruction	123,198,856	118,677,242	144,305,804	(25,628,562)
Support services				
Student	10,819,166	11,879,316	13,010,955	(1,131,639)
Instruction staff	10,384,652	11,796,542	11,531,212	265,330
District administration	2,360,400	1,970,295	2,192,053	(221,758)
School administration	16,617,912	18,516,117	19,152,817	(636,700)
Business	11,299,712	13,685,579	13,692,011	(6,432)
Plant operation and maintenance	22,315,124	20,560,506	19,567,101	993,405
Student transportation	8,570,743	8,495,098	9,704,043	(1,208,945)
Central office	322,549	-	-	-
Community service activities	403,162	95,466	81,290	14,176
Debt service	1,118,786	1,118,786	-	1,118,786
Contingency	9,701,587	10,701,587	-	10,701,587
Total expenditures	217,112,649	217,496,534	233,237,286	(15,740,752)
Excess (deficit) of revenues over expenditures	(15,691,526)	(16,075,410)	11,046,203	27,121,613
Other financing sources (uses)				
Proceeds from sale of fixed assets	-	-	92,953	92,953
Operating transfers in	679,539	679,539	2,047,719	1,368,180
Operating transfers out	(6,182,425)	(5,798,541)	(4,770,123)	1,028,418
Total other financing sources (uses)	(5,502,886)	(5,119,002)	(2,629,451)	2,489,551
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(21,194,412)	(21,194,412)	8,416,752	29,611,164
Fund balance, June 30, 2004	21,194,412	21,194,412	21,191,798	(2,614)
Fund balance, June 30, 2005	\$ -	\$ -	\$ 29,608,550	\$ 29,608,550

See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SPECIAL REVENUE

Year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Tuition and fees	\$ 648,208	\$ 576,910	\$ 511,905	\$ (65,005)
Earnings on investments	-	-	11,346	11,346
Other local revenues	117,978	814,624	70,023	(744,601)
Intergovernmental - intermediate	277,037	729,638	518,024	(211,614)
Intergovernmental - state				
Other	9,849,038	9,809,170	10,082,436	273,266
Intergovernmental - indirect federal	22,023,929	21,491,293	23,020,783	1,529,490
Intergovernmental - direct	2,713,225	3,001,558	1,325,600	(1,675,958)
Total revenue	<u>35,629,415</u>	<u>36,423,193</u>	<u>35,540,117</u>	<u>(883,076)</u>
Expenditures				
Instruction	20,774,463	21,604,377	19,899,966	1,704,411
Student	5,238,954	3,603,114	4,664,872	(1,061,758)
Instruction staff	6,402,510	5,630,631	5,418,801	211,830
District administration	500	21,249	14,650	6,599
School administration	531,609	692,045	678,292	13,753
Business	-	131,636	109,656	21,980
Plant operation and maintenance	317,180	586,907	533,290	53,617
Student transportation	-	15,788	10,663	5,125
Central office	-	676,276	594,012	82,264
Facilities acquisition and construction	-	-	351	(351)
Community service activities	2,218,966	2,140,922	2,136,322	4,600
Total expenditures	<u>35,484,182</u>	<u>35,102,945</u>	<u>34,060,875</u>	<u>1,042,070</u>
Excess of revenues over expenditures	145,233	1,320,248	1,479,242	158,994
Other financing sources (uses)				
Operating transfers in	569,425	-	611,207	611,207
Operating transfers out	(714,658)	(1,336,526)	(2,090,449)	(753,923)
Total other financing sources (uses)	<u>(145,233)</u>	<u>(1,336,526)</u>	<u>(1,479,242)</u>	<u>(142,716)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	(16,278)	-	16,278
Fund balance, June 30, 2004	<u>-</u>	<u>(164,106)</u>	<u>-</u>	<u>164,106</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ (180,384)</u>	<u>\$ -</u>	<u>\$ 180,384</u>

See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year ended June 30, 2005

	<u>CFDA Number</u>	<u>Pass-Through Number</u>	<u>Disbursements</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed through the Kentucky Department of Education:</i>			
Title I, Fiscal Year 2002-2003	84.010	33-540-3103	\$ 458
Title I, Fiscal Year 2003-2004	84.010	33-540-3104	1,487,754
Title I, Fiscal Year 2004-2005	84.010	33-540-3105	4,872,456
Title I, Part D Delinquent, Fiscal Year 2003-2004	84.010	33-540-3144	609
Title I, Part D Delinquent, Fiscal Year 2004-2005	84.010A	33-540-3145	28,472
Title I, Migrant, Fiscal Year 2003-2004	84.011	33-540-3114	57,401
Title I, Migrant, Fiscal Year 2004-2005	84.011	33-540-3115	146,722
Title I Neglected & Delinquent, Fiscal Year 2003-2004	84.013A	33-540-3134	1,487
Title I neglected & Delinquent, Fiscal Year 2004-2005	84.013A	33-540-3135	29,781
Title I Part A School Improvement	84.010	33-540-3203	92,062
Title I Part A School Improvement	84.010	33-540-3204	307,255
Title VI, Fiscal Year 2003-2004	84.298A	33-540-3344	79,016
IDEA-Basic, Fiscal Year 2001-2002	84.027	33-540-3372	6,904
IDEA-Basic, Fiscal Year 2002-2003	84.027	33-540-3373	77,846
IDEA-Basic, Fiscal Year 2004-2005	84.027	33-540-3375	3,168,449
IDEA-Basic, Fiscal Year 2003-2004	84.027	33-540-3374	4,996,881
IDEA-Silver, Fiscal Year 2001-2002	84.027	33-540-3372S	157
IDEA-Part B, Preschool, Fiscal Year 2002-2003	84.173	33-540-3433	1,496
IDEA-Part B, Preschool, Fiscal Year 2003-2004	84.173	33-540-3434	219,944
Title II, Teacher Quality	84.367A	33-540-4014	436,248
Title II, Teacher Quality	84.367A	33-540-4015	1,747,863
Teacher Quality Pilot Project	84.367A	33-540-4024	22,458
Title IV, Drug Free Schools 2004-2005	84.186A	33-540-4065	16,844
Title IV, Drug Free Schools 2003-2004	84.186A	33-540-4064	188,001
Enhancing Education Through Technology	84.318	33-540-4254	652
Enhancing Education Through Technology	84.318	33-540-4255	123,821
Enhancing Education Through Technology-Competitive	84.318	33-540-4254C	611,385
Enhancing Education Through Technology-Competitive	84.318	33-540-4253C	40,859
Reading First	84.357A	33-540-5084R	1,456,391
Comprehensive School Reform Grant 2005	84.332A	33-540-3084R	353,329
Comprehensive School Reform Grant 2004	84.332A	33-540-3083R	45,092
Vocational Education, Perkins, 2003 Carryforward	84.048	33-540-3483A	7,115
Vocational Education, Perkins, 2003 Carryforward	84.048	33-540-3484A	16,592
Vocational Education, Perkins Fund 2005	84.048	33-540-3485	334,783
Vocational Education, Perkins Fund 2004	84.048	33-540-3484	49,173
Emergency Immigrant Grant, 2005	84.162A	33-540-3455	199,595
21st Century Grant Carryforward	84.287	33-540-5504B	935
21st Century Grant	84.287	33-540-5505	144,572
21st Century Grant	84.287	33-540-5503	19,193
21st Century Grant	84.287K	33-540-5504	33,470
21st Century Grant	84.287	33-540-5504A	1,325
21st Century Grant	84.287	33-540-5505A	39,756
KDE Math/Science Tiered Mentoring	84.267A	33-540-4025	201,691
			<u>21,666,293</u>
<i>Passed through Eastern Kentucky University:</i>			
Community Service to Work	84.186	33-540-5343C	1,492
Community Service to Work	84.186	33-540-5345C	195,219
			<u>196,711</u>

See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year ended June 30, 2005

Passed through Kentucky Council on Postsecondary Education:

GEAR UP Grant 2005	84.334A	33-540-3795G	41,416
GEAR UP Grant 2004	84.334A	33-540-3794G	43,706
School to Work 2004	84.334A	33-540-3794	105
School to Work 2005	84.334A	33-540-3795A	<u>3,335</u>

88,562

Passed through Kentucky Vocational Education:

Tech Prep	84.243	33-540-3635	<u>12,500</u>
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Direct Programs:

Blue Grass Pride	11.469	N/A	1,640
Carol M. White Physical Education Program	84.215F	N/A	234,249
Carol M. White Physical Education Program	84.215F	N/A	28,280
Emergency Response Plans for Schools	84.184E	N/A	126,394
Smaller Learning Communities	84.215L	N/A	687,038
Smaller Learning Communities	84.215L	N/A	505
Foreign Language Assistance Grant	84.293B	N/A	<u>46,125</u>

1,124,231

Total U.S. Department of Education

23,088,297

U.S. DEPARTMENT OF AGRICULTURE

Passed through State Department of Education:

National School Lunch & School Breakfast Program	10.555	N/A	5,920,506
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Passed through the Kentucky Department of Agriculture:

Food Distribution Program	10.555	N/A	<u>790,937</u>
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Total of U.S. Department of Agriculture

6,711,443

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Refugee Children School Impact Grant 2003	93.576	N/A	<u>9,229</u>
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Total U.S. Department of Health and Human Services

9,229

U.S. DEPARTMENT OF LABOR

JKG Grant 2005	17.250	N/A	<u>32,928</u>
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Total U.S. Department of Labor

32,928

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Passed through the Kentucky Department of Education:

Service Learning Grant 2005	94.004	33-540-6755	2,294
Service Learning Grant 2004	94.004	33-540-6754	884
Service Learning Grant 2002	94.004	33-540-6752	<u>462</u>

Total Corporation for National and Community Service

3,640

See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year ended June 30, 2005

NATIONAL SCIENCE FOUNDATION

National Science Foundation	47.076	N/A	200,698
National Science Foundation	47.076	N/A	<u>205,764</u>

Total National Science Foundation			<u>406,462</u>
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U.S. DEPARTMENT OF DEFENSE

ROTC, Fiscal Year 2005	12.000	N/A	531
ROTC, Fiscal Year 2004	12.000	N/A	38,304
ROTC, Fiscal Year 2003	12.000	N/A	<u>91,642</u>

Total U.S. Department of Defense			<u>130,477</u>
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Total Expenditures of Federal Awards			<u><u>\$ 30,382,476</u></u>
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See accompanying independent auditor's report.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year ended June 30, 2005

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fayette County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Fayette County School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2005

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____yes X none reported
- Noncompliance material to financial
statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weakness(es)? _____yes X none reported

Type of auditor's report issued on compliance for major programs (unqualified):

- Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027 / 84.173	IDEA BASIC - Special Education & Preschool
84.367A	Title II, Teacher Quality
84.357A	Reading First

- Dollar threshold used to distinguish
Between type A and type B programs: \$ 911,474
- Auditee qualified as low-risk auditee? X yes _____no

Section II - Financial Statement of Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

FAYETTE COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2005

There were no prior year audit findings.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of
Fayette County School District

We have audited the financial statements of Fayette County School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fayette County School District, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on their determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fayette County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 19, 2005.

This report is intended for the information of the members of the Kentucky State Committee for School District Audits, the Board of Education of Fayette County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Mountjoy & Bruesch, J.L.A.
Lexington, Kentucky /
October 19, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education of
Fayette County School District

Compliance

We have audited the compliance of Fayette County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Fayette County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fayette County School District's management. Our responsibility is to express an opinion of Fayette County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fayette County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fayette County School District's compliance with those requirements.


In our opinion, the Fayette County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Fayette County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Fayette County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the Kentucky State Committee for School District Audits, the Board of Education of Fayette County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Lexington, Kentucky
October 19, 2005

MANAGEMENT LETTER COMMENTS

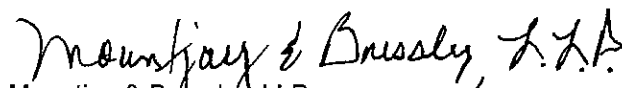
Members of the Board of Education of
Fayette County School District
Lexington, Kentucky

In planning and performing our audit of the financial statements of Fayette County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 19, 2005 contains our report on the District's internal control structure. This letter does not affect our report dated October 19, 2005 on the financial statements of the Fayette County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,


Mountjoy & Bressler, LLP

Lexington, Kentucky
October 19, 2005

FAYETTE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS

Monitoring

Management has the responsibility of preparing the District's financial statements. Management also has the responsibility of designing and implementing an accounting internal control system that facilitates the timely and accurate preparation of the financial statements. Part of that internal control system should include monitoring procedures. During our audit, we noted accounting errors in the financial statements that required audit adjustments. Specifically, we proposed adjustments to fixed assets, accounts payable, accounts receivable and deferred revenue that were related to clerical errors and misstatements. We also revised entries in debt service and prepaid expenses and payroll liabilities that were related to untimely reconciliation of accounts. Upon further investigation, the untimely reconciliation of accounts was primarily related to reductions in Financial Services staff.

In addition, we noted the District's books were not closed in a timely manner that was conducive for an efficient audit. Management was reconciling accounts and performing closing entries through October 12, 2005. The books were scheduled to be closed by July 31, 2005 which coincided with the beginning of our final audit fieldwork procedures. The following items were not provided or reconciled in accordance with the agreed upon audit schedule: bond activity schedule, trust activity schedule, inter-fund transfers, and reconciliation of accrued payroll liabilities.

To strengthen those controls, we recommend the District develop and implement a monitoring system at each level of financial statement process. The Accounting Manager should monitor the various accounting functions including cash receipts, accounts payable, payroll, inventory and fixed assets. The Accounting Manager should review the input and output data generated from the staff of those departments for errors. The Financial Director should monitor the activity of the Accounting Manager. Monitoring procedures performed by the Finance Director should include reviewing the general ledger and journal entries for proper accounting classification and treatment, reviewing subsidiary schedules for agreement with the general ledger and monitoring the process of the year-end close and audit. Finally, we recommend the Chief Operating Officer as well as the Finance and Budget Committee continue to monitor the activity of the Finance Director as well as access the overall quality of the internal control system over the financial statement process. Strengthening the controls over monitoring should reduce the volume of audit adjustments and increase the overall efficiency of the audit.

Management's Response

We agree that timely closing of the books is important, however, since we must keep the books open for 60 days to accrue payables and revenues, July 31 is not realistic with a June 30 year end. In future engagements with audit firms, we will establish a more realistic timeframe for staff closing activities and schedule the audit team to begin their work at a more realistic date in August or September.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

Issues in debt service centered around the refunding of issues '96 and '97. Because there was a lag between issuance of bonds and call on the refunded bonds, this resulted in the accumulation of interest in the holding account which the bank transferred to the debt service account. At year end the amount of the transferred interest remained in the two debt services accounts and the auditors recommended booking the earnings. Also, we discussed the treatment of these two accounts for consistency with GASB 23, however, the KDE chart of accounts does not currently allow for the recommended entry.

There was a change recommended in the treatment of prepaid debt service expenses. In past years, both the principal and interest payments were treated as prepaid. This year the auditor proposed that only interest should be booked as a prepaid expense.

Fund two was closed as required by making entries to either accrue a receivable or to defer revenue. This year we were asked to net the effects of the closing process and make an adjusting entry to correct the account balances. This represents a change from the previously approved process we have utilized in past years for the audit. To avoid the problem in the future, the district will close fund two preliminarily on July 25th and then at the conclusion of the audit.

The adjustment related to accounts payable derived from a difference of professional opinion as to how we should book accounts payable related to application and certificates for payment of construction contracts. It is our opinion that the date of the invoice should be the date the Architects Certificate for Payment is signed, not the period date. The Architect's Certification is the documentation that the actual services have actually occurred, thus giving us the official authorization to release payment for services rendered. We will continue to consistently adhere to the constitution of the Commonwealth that provides for payment remitted only after services have been rendered.

The fixed asset adjustment error that occurred this year was due to a manual audit adjustment which caused a malfunction in MUNIS related to this particular fixed asset. This was a result of an adjustment recommended by the auditors in the previous year. It has now been corrected through the fixed asset module in MUNIS so that the asset will depreciate correctly in future years.

Monthly financial statements have always been reviewed on a monthly basis. A reduction in Financial Services staff has required reassignment of some procedures and this finding has substantiated the need to study processes and distribution of workload. Staff will comply with this recommendation by formalizing this process and procedure during the coming year.

CURRENT YEAR COMMENTS

Cash

During our audit of cash, we noted the District made an adjustment of approximately \$350,000 to the payroll cash account. The adjustment which increased cash was related to outstanding payroll withholding checks that were older than one year as of June 30, 2005. The checks primarily consisted of checks that were not properly voided in the accounting system in the period in which they were prepared. We recommend that accounting personnel investigate all large outstanding checks on a regular basis and make the necessary adjustments to cash on a timely basis.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

Management's Response

We agree that this should become part of the bank reconciliation process with a documented quarterly review with the appropriate manager. We will continue to refine our processes to ensure greater reliance on computer generated checks versus manual checks.

To ensure that an original vendor check has been voided in MUNIS prior to a new one being issued, we will attach a copy of the screen in MUNIS from which the original check was voided. We will not issue a new check without proof that the original check was voided. Though the voided checks did not cause the district to lose any money, the cash account was actually understated during the 2005 fiscal year.

Cash Receipts

During our testing of accounts receivable we noted several receipts that the District did not deposit in the District's bank account in a timely manner. From January 2005 to July 2005, the Interim Director of Technology received several checks via the mail. The checks totaling \$290,338 were related to quarterly collections of a federal tax on phone companies that is restricted to school districts (E-rate). In August 2005 the checks were submitted to the cash receipts clerk for deposit into the District's bank account. We recommend the District adhere to its written cashier guidelines which require all receipts to be turned into the cash receipts clerk on the day of receipt, and all funds deposited daily.

Management's Response

We will ask all budget managers handling cash receipts to sign a statement that they have received, read, and understand the cash receipts procedures of the district.

Fixed Assets

The District performs a physical of its fixed asset inventory on an annual basis. A physical inventory is taken at each school location during the spring preceding the District's fiscal year end. However, the results of the physical inventory are not reconciled to the District's fixed asset module and general ledger until the following December. We recommend the District schedule the reconciliation process earlier in order for the results of the physical to be properly reflected in the year end financial statements.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

Management maintains the District's fixed assets and depreciation accounting records in the District's MUNIS fixed asset module. The system calculates and maintains depreciation on an annual basis. Currently, management is not preparing the fixed asset roll forward schedule that is necessary for completion of the financial statements. We recommend that management assign accounting personnel the responsibility of preparing this roll forward schedule and reconciling the results of the fixed asset module to the general ledger on an annual basis.

Management's Response

Staff has identified at least two options that would help to complete the inventory in a more timely manner:

1. One possibility is to invest in new inventory equipment which would allow the scan team to generate the missing report at the site immediately after scanning. This will allow for immediate reconciliation at the school.
2. Secondly, management will consider changing the inventory date from May and June to December and January. This would allow for adequate time to complete inventory before the audit begins. All alternatives will be reviewed and considered. Management will then implement a process to complete the inventory in a more timely manner.

This recommendation related to depreciation is a change in the fixed asset management process developed jointly with the audit team 3 years ago. We have no problems related to adopting a fixed asset roll forward schedule and performing the necessary reconciliations.

Trust Funds

During our audit of the District's trust funds, we noted that the Trust Fund Committee is not maintaining written minutes of their meetings. As a result, there is no assurance regarding the discussion that may have taken place at a meeting of the Committee and likewise, no assurance regarding official actions of the Committee that may have had a financial impact. We strongly suggest that minutes be prepared and retained for all meetings of the Trust Fund Committee.

Management's Response

The members of the trust fund committee have retired or left the district. The composition has been the superintendent, the director of student achievement, a school director, a financial service representative and the director of human resources. We will appoint new members and summary notes of meetings will be kept.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

Payroll

During our audit we noted several suggestions that could improve internal controls related to payroll and corresponding payroll general ledger accounts. We recommend that the District assign accounting personnel independent from payroll preparation duties to reconcile accounting records reported in the payroll tax returns to the general ledger on a quarterly basis. At least annually, typically with the productions of forms W-2, we suggest that someone independent of payroll duties reconcile the total of W-2 wages for the year to the forms 941 and general ledger. We also suggest that unclaimed or returned W-2's be investigated by accounting personnel independent of payroll. Finally, we suggest accounting personnel reconcile the payroll withholding liability accounts on the balance sheet at least on a quarterly basis which coincides with most payroll deadlines.

Management's Response

Management will review the 941 quarterly as the supervisor of payroll prepares them before they are submitted. The payroll liability accounts will also be reconciled at least quarterly.

Management has confirmed that our current practice for handling unclaimed W-2's is in compliance with Internal Revenue Service guidelines. We do not agree that further investigation into unclaimed W-2's is warranted.

Debt Service

Currently, management prepares a bond activity schedule on an annual basis. This schedule summarizes debt service payments on bond obligations made during the year. However, the schedule submitted for audit did not reconcile to the general ledger. We suggest that management prepare the bond activity schedule and reconcile the results to the general ledger on a quarterly basis. We also recommend the District set up each bond issue individually in the debt service fund.

In the past, we have assisted management in the preparation of the District's long term debt schedule which summarizes future principal and interest payments related to capital lease and bond obligations. This schedule is disclosed in the notes to the financial statements. We suggest that management assign accounting personnel the responsibility of the preparation of this schedule and the reconciliation to the general ledger on an annual basis.

FAYETTE COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2005

Management's Response

Our financial advisor provides us with a schedule of principal and interest payments due for each year of the term of the asset. This document is summarized and used to create the debt service budget. As payments are due, the holding bank sends an invoice which may include adjustments for administrative fees or interest earned. The holding bank is contacted by phone to verify that we will be sending the correct amount by the correct due date. This is the basis of the payments made to the bank and recorded in the debt service fund.

The schedule submitted agreed with the debt service fund of the general ledger at the time of preparation. That said, we agree and are developing quarterly reconciliation of bank debt service reports to the general ledger debt service. One person will manage all funds related to construction and debt services. Reconciliations will be performed monthly and documented.

Accounts Payable

During our testing of cash disbursements, we noted one instance involving a paid invoice that exceeded the corresponding purchase order by more than 10%. According to the District's written accounts payable procedure, purchase orders that do not have sufficient funds to cover the invoice totals (amounts that exceed the allocation by 10% cannot be processed) must be revised through Purchase Order Maintenance. We recommend that override of District procedures be approved and documented by management.

Management's Response

We will periodically change passwords for override capacity and a manager will sign the disbursement document indicating the logic for the override. We agree that providing the documentation is needed.